JEWEL PARK HEADQUARTERS

JEWEL TEA CO., INC.

ANNUAL REPORT
1949

JEWEL TEA CO., INC.

JEWEL PARK

BARRINGTON, ILLINOIS

In spite of mid-year misgivings, the year 1949 worked out to be the best in Jewel's long history. We hope that our stockholders will find this report of the year's activities and final results informative and interesting.

REPORT FOR THE FIFTY-TWO WEEKS ENDED DECEMBER 31, 1949

HIGHLIGHTS OF THE YEAR

JEWEL TEA CO., INC.

	1949	1948
Retail sales	$168,787,620	$152,990,515
Earnings for the year:		
Before all taxes	10,604,569	10,212,770
After all taxes	4,171,929	4,013,355
Per share of common stock	6.93	6.66
Working capital:		
Net dollars	13,327,459	12,617,578
Ratio—current assets to current liabilities	2.3 to 1	2.3 to 1
Earnings reinvested in the business	$ 1,985,473	$ 1,968,516
Operating units:		
Home Service Routes	1,962	1,876
Retail Food Stores	153	154
Number of employees	6,114	5,715
Number of shareholders	6,635	6,618

PRESIDENT'S LETTER

February 6, 1950

To Jewel Stockholders and Employees:

This report covers the 52-week period ended December 31, 1949, your company's 51st and most successful year. Highlights of the year are shown on the preceding page. The story behind these results is briefly outlined in the following paragraphs.

SALES

Retail sales for 1949 totaled $168,787,620, a gain of $15,797,105 or 10.3% over the previous year. The modernization and enlargement of a number of stores and the addition of new routes, along with the introduction of new products and merchandising methods, made it possible to serve more customers on our Home Service Routes and in our Retail Food Stores.

Sales in 1949 were nearly seven times those of 1939. For the past 10 years, except in 1943 when rationing had its greatest effect on sales, our retail sales have shown an increase in each succeeding year. Two factors, added tonnage of merchandise sold and higher price levels, each accounted for about one-half of this gain.

EARNINGS - DIVIDENDS

Net earnings of $4,171,929 were the highest in the company's history and after preferred dividend payments amounted to $6.93 per share of common stock as compared to $6.66 in 1948 and $5.58 in 1947. Because of the unprecedented sharp rise in the

green coffee market and its all-time high price level, the company elected to adopt the LIFO (last-in, first-out) method of valuing its green coffee inventory. This election enabled us to reduce the carrying value of this commodity to a figure substantially below present market value, and also reduces our Federal Income Tax payments for the year.

In terms of customer purchases, 1949 earnings amounted to less than two-thirds of a cent per pound of merchandise sold.

Dividends on common stock were continued at the quarterly rate of 60¢ per share during 1949. In addition a year-end special dividend of $1.00 per share was declared on November 29, 1949 and paid on January 2, 1950, making a total of $3.40 per share paid out of 1949 earnings.

Our dividend policy, based on an effort to provide a reasonable return to stockholders, investment security, and funds to reinvest for our company's growth, has through the years increased the common stock equity and made it possible to expand our business to its present size. This policy enables our company to plan further expansion without foreseeable need of additional outside financing.

EXPENSES

As in most businesses, our operating expenses in 1949 were higher in total dollars as well as in relation to sales. During recent years the expenses and investment in facilities, working cash and inventory, required to support a rapid increase in sales volume, were incurred largely at the retail outlet level in both Stores and Routes. The sharp upward trend of sales since the end of World War II finally required larger investment last year in manufacturing and distribution facilities serving our retail units. Consequently, depreciation charges have again in-

creased and in large measure account for the increase in expenses in relation to sales. On the other hand, these additions and improvements in facilities helped make it possible to pay more to employees again last year without an increase in payroll cost in relation to sales. As a result of this program, it will be possible to continue to add and improve retail units without adding further to manufacturing and distribution facilities until again made necessary by a substantial increase in tonnage through our retail outlets.

Although there were no changes in Federal tax rates in 1949, the pressures on state and local governments for increased services coupled with higher operating costs, resulted in larger tax levies on corporations and individuals alike. Taxes paid by our company during the year aggregating $6,056,203 (excluding Social Security taxes and the many indirect taxes hidden in the cost of the goods and services which we buy) were equivalent to $10.78 for each share of stock owned by our 6,228 common shareholders or $991 for each of our 6,114 employees.

FINANCIAL POSITION

Our financial position, because of retained earnings, has been maintained on a sound working basis. The chart on page 13, covering the past decade, shows the increasing proportion of our total resources invested in working assets.

Prepaid supplies and expenses, in conformity with presently accepted accounting practice, have been classified as current assets at the year end and so reclassified in 1948 figures for comparative purposes.

The rapid turnover of inventories, the adoption of the LIFO method of valuing green coffee, the relatively short credit term of our accounts receivable, and the application of maximum

depreciation rates* to our fixed assets, all tend to strengthen our financial position against future contingencies.

FACILITIES

During the year 86 new Home Service Routes were put into operation in established territories, bringing the total at year end to 1,962. Although no new branches were opened, seven were moved into new and larger buildings which increase operating efficiency and provide more attractive working conditions. All of the automotive equipment used in the Home Service Routes Department (route delivery trucks, freight trucks and passenger cars) are now postwar models.

Twenty-two Retail Food Stores were enlarged or relocated to supply the needed customer service within the area served. Parking lots, an increasingly important factor in attracting customers, were added in 12 locations. Two new stores were opened and three outmoded stores were closed during the year.

The outstanding opportunity today to provide improved service to customers of our retail stores lies in the conversion of old-type service markets to modern markets offering pre-cut meats, ready-packaged for self-service. In suburban areas we have had a most successful experience in eight stores now offering this customer convenience. In the city of Chicago, where we operate our largest number of retail stores, union contracts still prohibit the offering of the advantages of self-service meats to our customers. It is our intention to continue our efforts to bring our Chicago customers this improved service. Chicago is now the only major city where union contracts prohibit the self-service merchandising of meats.

**Generally the maximum rate allowable in computing depreciation for Federal Income Tax purposes, plus additional amortization of postwar branch and store buildings and full writeoff of obsolete service meat cases and scales.*

In order to continue operations in certain areas it was necessary to erect one branch building and one store building. However, in keeping with our policy of a minimum investment in such properties, one other branch building was sold during the year and two other store buildings have been sold since the year end.

Enlargement of the company-owned Food Store Department warehouse at 3617 South Ashland Avenue, Chicago, Illinois was completed during the year. This addition makes it possible to handle quickly and economically the increasing tonnage of fresh fruits and vegetables, dairy products and frozen foods.

COFFEE PRICES

Everyone who enjoys a good cup of coffee is well aware of the sharp increase in its cost in recent months. Between October 20, 1949 and the end of the year our retail coffee prices had increased approximately 40%, but during the same period of time the cost of green coffee rose approximately 70%. It is not yet possible to determine true consumer reaction to higher coffee prices. It should be possible, however, to adjust our coffee operations to meet whatever may be demanded by consumers and green coffee costs.

PERSONNEL

On January 1, 1950 a more comprehensive and liberal "Package Plan" of insurance for Jewel employees replaced the various coverages previously in effect. This voluntary plan, equally available to all employees on a contributory basis, provides for absence compensation, hospitalization, medical and surgical care and group life insurance. Hospitalization, medical and surgical benefits for employees' immediate families and additional group life insurance are also available under optional coverage. The protection against both the usual and unusual daily hazards afforded by this new plan, together with the retirement benefits of Jewel

Retirement Estates, a voluntary, contributory, profit-sharing plan established in 1938, provides Jewel employees with the security and peace of mind necessary for a constructive attitude toward their work. Of the eligible employees, 97% are enrolled in the new plan and 90% are members of Jewel Retirement Estates.

A survey recently conducted by a management consulting firm disclosed that the average age of corporate officers was 54 years as compared with 47 years in 1929. The present average age of the officers of your company is 46 years. All officers and executives are required to have a complete physical examination annually, and encouraged to follow any corrective or preventative measures recommended by the examining physician.

OUTLOOK

The year 1949 presented many problems for the retailer in the form of higher fixed costs, increased wage rates, and a growing customer resistance to prices. By adjusting to these factors we were able to complete the year with a net return per dollar of sales only slightly less than the two previous years. The year 1950 will present the same problems, plus keener competition within our industry and increased competition for the consumer's dollar from businesses in other fields.

One of the great sources of satisfaction to the management is the continued whole-hearted interest and support of our stockholders, suppliers, landlords, employees and customers.

F. J. Lunding

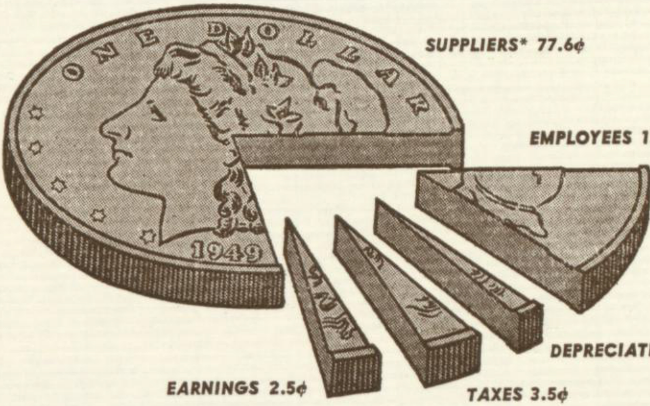
President

For the Board of Directors:

John M. Hancock

Chairman

Distribution of the Jewel 1949 Sales Dollar

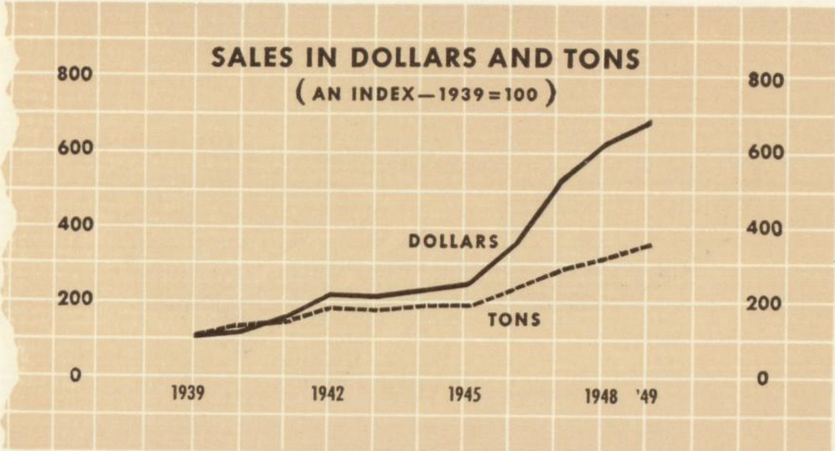


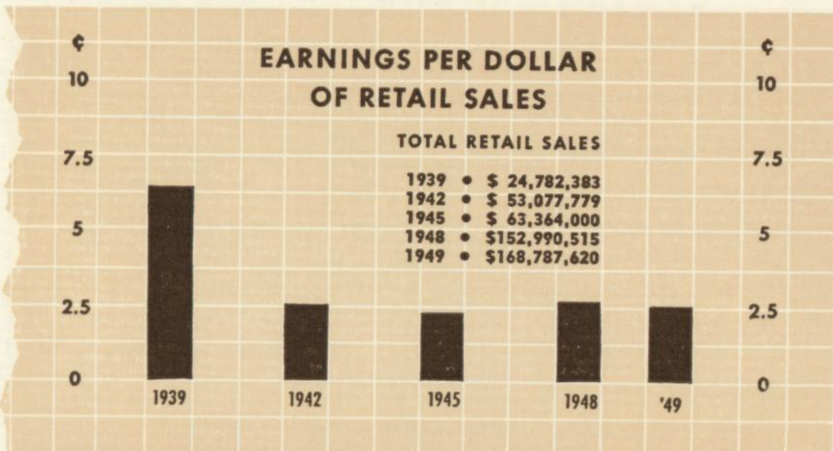
Comparisons with 1948 and 1946

	1949	1948	1946
TOTAL SALES AND REVENUES (Millions of Dollars)	$ 169	$ 154	$ 89
DISTRIBUTION (Per $1 of Sales)			
Suppliers*, etc..	77.6¢	77.2¢	74.5¢
Employees, including social security taxes	15.2	15.4	17.4
Depreciation, maintenance and repairs	1.2	1.0	.8
Federal, state and local taxes	3.5	3.8	4.1
Earnings	2.5	2.6	3.2
	$1.00	$1.00	$1.00

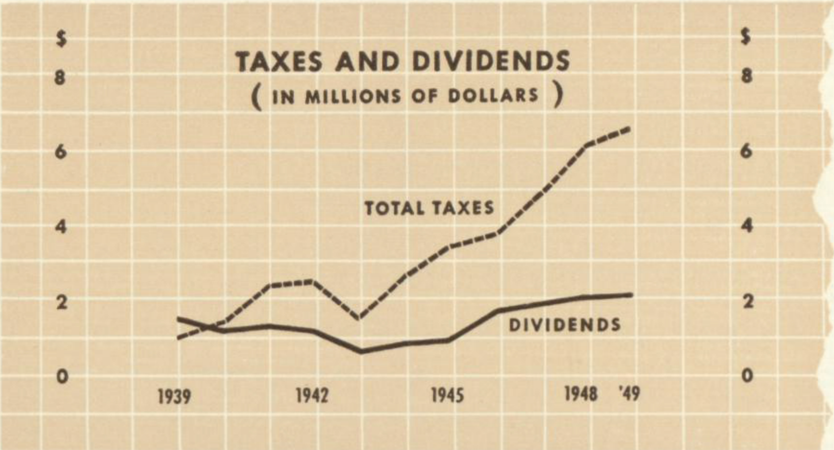
*Includes products, materials, services, rents and doubtful accounts.

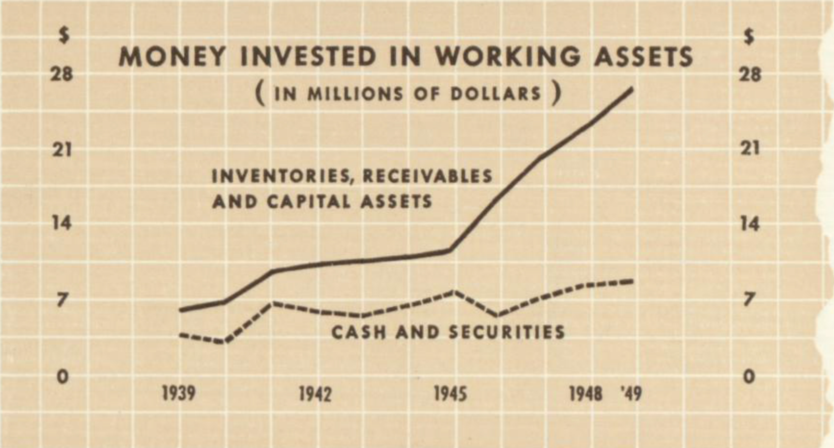
JEWEL'S RECORD 19





39 THROUGH 1949





JEWEL TEA CO., INC.

A New York Corporation

STOCKHOLDERS' MEETING

The annual meeting of stockholders is to be held on Tuesday, March 28, 1950. A notice of the meeting, along with a proxy statement and proxy for those unable to attend will be mailed on or about March 3, 1950 to the holders of our common stock as of March 1, 1950.

STOCK LISTING

No Par Common Stock and 3¾% Cumulative Preferred Stock
Listed on The New York Stock Exchange

TRANSFER AGENT

Manufacturers Trust Company, 55 Broad Street
New York 15, N. Y.

REGISTRAR

The Commercial National Bank and Trust Company of New York
46 Wall Street, New York 15, N. Y.

FINANCIAL REPORT

JEWEL TEA CO., INC.

For the Fifty-Two Weeks Ended December 31, 1949
and
Ten Year Review

AUDITORS' REPORT

Chicago, Illinois
February 3, 1950

To the Board of Directors,
Jewel Tea Co., Inc.:

We have examined the balance sheet of Jewel Tea Co., Inc., as of December 31, 1949, and the related statements of income and accumulated earnings for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and accumulated earnings present fairly the financial position of Jewel Tea Co., Inc., at December 31, 1949, and the results of its operations for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, other than for the adoption of the last-in, first-out method of valuing the inventory of green coffees, as explained in the inventory note to the financial statements, a change which we approve.

Touche, Niven, Bailey & Smart

Certified Public Accountants.

FINANCIAL

INCOME ACCOUNT

	52 Weeks Ended Dec. 31, 1949	52 Weeks Ended Jan. 1, 1949
Sales and Revenues:		
Retail sales	$168,787,620	$152,990,515
Wholesale and other sales	213,405	235,520
Interest and miscellaneous income	169,324	339,713
Total sales and revenues	169,170,349	153,565,748
Costs of Doing Business:		
Paid to or for the benefit of employees:		
Payrolls	24,264,017	22,289,373
Social security taxes	376,437	337,448
Contribution to Jewel Retirement Estates	1,056,348	964,093
Total	25,696,802	23,590,914
Products, materials, services and rents	130,861,188	118,185,478
Depreciation	1,517,918	1,104,607
Maintenance and repairs	507,545	432,373
Doubtful accounts charged to operations	358,764	377,054
Federal taxes on income	2,549,063	2,533,601
State, local and all other federal taxes	3,507,140	3,328,366
Total costs of doing business	164,998,420	149,552,393
Earnings for the Year	4,171,929	4,013,355
Percent of earnings to sales and revenues	*2.5%*	*2.6%*
Dividends on preferred stock	277,453	281,006
Earnings applicable to common stock	$ 3,894,476	$ 3,732,349
Earnings per share of common stock	$ 6.93	$ 6.66

The notes which follow on pages 18 to 21 give

STATEMENTS

BALANCE SHEET

ASSETS

	Dec. 31, 1949	Jan. 1, 1949
Current Assets:		
Cash	$ 5,256,327	$ 4,779,663
U. S. Government securities	3,547,713	3,754,161
Accounts receivable	3,056,782	2,793,994
Inventories	11,707,434	10,892,666
Prepaid expenses and supplies	403,369	393,387
	23,971,625	22,613,871
Claims for Refund of Excess Profits Taxes	281,600	281,600
Deferred Charge—Premiums Advanced to Customers	1,200,499	1,322,102
Property, Plant and Equipment	9,456,800	8,103,790
Goodwill	1	1
	$34,910,525	$32,321,364

LIABILITIES

	Dec. 31, 1949	Jan. 1, 1949
Current Liabilities:		
Accounts payable	$ 4,339,550	$ 4,088,410
Dividends payable	631,066	490,482
Federal, state and local taxes accrued	3,318,133	3,278,478
Accrued payrolls and profit sharing	2,355,417	2,138,923
	10,644,166	9,996,293
Reserves:		
Obsolescence, and inventory valuation	750,000	750,000
Automobile accident and other self-insured losses	250,000	250,000
	1,000,000	1,000,000
Capital Stock and Accumulated Earnings:		
Preferred stock	7,500,000	7,500,000
Common stock	6,095,480	5,987,253
Accumulated earnings	9,789,539	7,857,184
	23,385,019	21,344,437
Less preferred stock in treasury	118,660	19,366
	23,266,359	21,325,071
	$34,910,525	$32,321,364

additional information about the financial statements

ACCUMULATED EARNINGS

Reinvested in the Business

Balance, January 1, 1949	$ 7,857,184
Add:	
Earnings for the year, from Income Account	4,171,929
Adjustment on sale of common treasury stock to employees	435
	12,029,548
Deduct:	
Dividends to owners of the business:	
Preferred shareholders—$3.75 per share	277,453
Common shareholders—$3.40 per share	1,909,003
Transfer to common stock account of adjustments on sale of common treasury stock to employees	53,553
	2,240,009
Balance, December 31, 1949	$ 9,789,539

The notes below and on pages 19 to 21 give additional information about the financial statements.

INFORMATION ABOUT THE FINANCIAL STATEMENTS

U. S. GOVERNMENT SECURITIES

Securities are valued individually at the lower of cost or market plus accrued interest, which at the year end was the same as market plus accrued interest.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Items on the balance sheet have been reduced by an allowance for doubtful accounts as follows:

	Dec. 31, 1949	Jan. 1, 1949
Accounts receivable	$ 165,134	$ 161,914
Premiums advanced to customers	61,544	50,867

INFORMATION ABOUT THE FINANCIAL STATEMENTS

INVENTORIES

Inventories, other than green coffees, at December 31, 1949 are valued at the lower of cost or market, cost being determined on the general principle of "first-in, first-out," as in prior years. The "last-in, first-out" method of determining cost of green coffees was adopted in 1949. As a result, inventory of this commodity at December 31, 1949 has been stated at $702,584 less than if the actual lot method used in prior years had been continued. Earnings for the year were $304,921 lower because of this change.

Inventories at the year end consisted of the following:

	Dec. 31, 1949	Jan. 1, 1949
Green coffees and other raw materials	$ 1,967,945	$ 2,163,753
Finished merchandise	9,739,489	8,728,913
	$11,707,434	$10,892,666

CLAIMS FOR REFUND OF EXCESS PROFITS TAXES

During the year the Excess Profits Tax Council in Washington approved a constructive "average base period net income" to be used in the determination of refunds of a substantial portion (in excess of the $281,600 shown in the balance sheet) of excess profits taxes paid for the years 1940 through 1945. Income and excess profits tax returns and claims for the years 1940 through 1943 have been reviewed by the Chicago office of the Internal Revenue Service and a net refund for those years, subject to review in Washington, has been agreed upon. Returns and claims for the years 1944 and 1945 have not yet been reviewed by the Chicago office of the Internal Revenue Service.

PREMIUMS ADVANCED TO CUSTOMERS

In the Routes Department, customers are given the opportunity to receive as premiums, items of household equipment and furnishings. The premiums are paid for by credits subsequently allowed on grocery items and household supplies purchased for cash. The balance sheet amount reflects the cost of premiums advanced but not yet paid for by credits, less an allowance for doubtful accounts.

INFORMATION ABOUT THE FINANCIAL STATEMENTS

PROPERTY, PLANT AND EQUIPMENT

As stated in previous years it is company policy to acquire the use of retail store and branch warehouse properties under lease agreements wherever possible. These leases, presently 218 in number (generally for 5 year terms but for no longer than 10 years), do not include provisions for purchase of the subject properties nor the assumptions of ownership obligations, and the annual commitments thereunder beyond five years are not significant.

A schedule of property, plant and equipment, together with related allowances for depreciation, is shown in the table below:

	Dec. 31, 1949	Jan. 1, 1949
Cost:		
Land	$ 720,279	$ 699,441
Buildings	4,773,397	3,741,437
Machinery, furniture and fixtures, at plants	1,524,210	1,283,891
Automobiles and other branch and store equipment	8,090,498	6,831,250
Total property, plant and equipment	15,108,384	12,556,019
Allowance for depreciation:		
Buildings	1,541,905	1,356,172
Machinery, furniture and fixtures, at plants	787,155	729,036
Automobiles and other branch and store equipment	3,322,524	2,367,021
Total depreciation	5,651,584	4,452,229
Book value of property, plant and equipment	$ 9,456,800	$ 8,103,790

PREFERRED STOCK — STOCK IN TREASURY

Preferred stock is 3¾% cumulative $100 par value, and 75,000 shares have been authorized and issued. The preferred stock may be redeemed in whole or in part on 30 days notice at $106.50 per share until June 30, 1950, and thereafter at a 50¢ per share reduction in price each July 1, until July 1, 1956, on and after which the price is $103 per share, in each case plus accrued dividends.

The company must acquire on or before each June 30, commencing in 1950, at least 1,500 shares in connection with sinking fund requirements of the

issue. Sinking fund redemption price is $104.75 per share to June 30, 1950, and decreases 25¢ per share per annum to $103 per share after June 30, 1956, in each case plus accrued dividends.

There were 1,200 shares of preferred stock in the treasury on December 31, 1949, valued at acquisition cost of $118,660.

COMMON STOCK

Common stock of no par value consists of 900,000 authorized shares. At December 31, 1949 there were 561,879 shares issued and outstanding of which 1,327 shares were issued to employees in 1949 under terms of the company's employee stock purchase plan. The proceeds of $54,673 have been credited to the Common Stock Account.

Adjustments arising from the sale of common treasury stock, $53,553 for the years 1942 through 1949 previously credited to Accumulated Earnings, have been transferred to the Common Stock Account.

ACCUMULATED EARNINGS

Under the terms of the preferred stock provisions of the certificate of incorporation, $7,478,637 is available for cash dividends on common stock.

CONTINGENT LIABILITY — JEWEL EMPLOYEES' SURETY DEPOSITS

Certain employees of the company make cash deposits as security for their handling of company property. These surety deposits are kept in a separate employees' trust fund, of which the company is trustee. Principal, and interest at the rate of 2% per annum, are guaranteed by the company. The assets of the employees' trust fund on December 31, 1949, consisted of investments (valued at lower of cost or market) and cash totaling $270,841 which covered in full the liability for employees' surety deposits. Neither the assets nor liabilities of the employees' trust fund are included in the balance sheet.

TEN YEAR REVIEW

JEWEL TEA CO., INC.

OPERATING PROGRESS

Year	Retail Sales	Payments to or for Employees	Taxes Paid *(except social security)*	Per Share of Common Stock Net Earnings	Per Share of Common Stock Dividends
1940	$ 29,089,863	$ 6,179,988	$1,232,662	$2.82	$2.40
1941	41,541,405	7,585,286	2,174,337	2.60	2.40
1942	53,077,779	8,773,444	2,238,733	2.03	1.80
1943	52,212,105	9,371,233	1,416,182	1.69	1.15
1944	56,899,845	10,544,661	2,508,641	2.12	1.40
1945	63,364,000	11,846,044	3,381,001	2.33	1.50
1946	88,237,518	15,455,305	3,644,382	4.72	2.75
1947	130,477,490	20,301,740	4,612,106	5.58	3.00
1948	152,990,515	23,590,914	5,861,967	6.66	3.15
1949	168,787,620	25,696,802	6,056,203	6.93	3.40

FINANCIAL GROWTH

At Year End	Working Capital	Property, Plant and Equipment	Accumulated Earnings *(Reinvested in the Business)*	Total Assets
1940	$ 4,349,799	$2,875,499	$ 2,984,451	$10,697,025
1941	8,482,145	4,098,007	2,394,903	16,478,214
1942	8,703,936	4,133,221	2,494,387	16,504,033
1943	9,310,997	3,606,478	2,810,398	16,668,472
1944	9,950,699	3,235,274	3,226,590	18,119,350
1945	10,477,657	3,170,386	3,701,801	19,882,034
1946	10,584,128	3,965,473	4,815,732	22,975,700
1947	12,316,903	6,009,800	5,883,706	28,252,954
1948	12,617,578	8,103,790	7,857,184	32,321,364
1949	13,327,459	9,456,800	9,789,539	34,910,525

DIRECTORS

JOHN M. HANCOCK, Chairman

H. S. BOWERS	W. A. GERBOSI	J. M. O'CONNOR
G. L. CLEMENTS	A. V. JANNOTTA	C. B. THOMPSON
J. M. FRIEDLANDER	F. J. LUNDING	R. R. UPDEGRAFF
	E. H. MCDERMOTT	

OFFICERS

PRESIDENT'S OFFICE

135 S. LaSalle St., Chicago 3, Illinois

F. J. LUNDING, President

JEWEL FOOD STORES DEPARTMENT

3617 South Ashland Avenue, Chicago 9, Illinois

G. L. CLEMENTS	Vice President and General Manager
E. A. MILLER	Vice President and Merchandise Manager
M. S. MORSE	Vice President and Operating Manager

HOME SERVICE ROUTES DEPARTMENT

Jewel Park, Barrington, Illinois

W. A. GERBOSI	Vice President and General Manager
H. W. DOTTS	Vice President and Sales Manager
C. A. LARSON	Vice President and Merchandise Manager

CORPORATE OFFICES

Jewel Park, Barrington, Illinois

J. M. FRIEDLANDER	Financial Vice President
E. E. HARGRAVE	Secretary
H. G. HOMUTH	Treasurer
P. F. SEIGER	Controller
R. D. STURTEVANT	Assistant Secretary and General Counsel
R. W. WILLIAMSON	Assistant Secretary

IMPORTING OFFICES

99 Wall St., New York 5, N. Y.

J. M. O'CONNOR, Vice President—Imports

JEWEL